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SUBJECT: IBM INVESTS BIG IN INDIA: HUMAN RESOURCES
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¶1. (U) Summary: Riding the crest of a \$6 billion investment, IBM India plans to expand its Bangalore research and development (R&D) operations and in doing so will unleash a new human capital thrust in already talent-hungry south India. The company anticipates its Indian workforce will triple in the next five years. An expanding market in India for U.S. manufactured mainframes and network software services presents an opportunity the company does not plan to miss. Increasing demand for remote management of global client networks is another revenue stream for IBM India. Simultaneous investments in open source software protocol and capacity building spearhead the company's effort to market e-governance solutions in the Indian market. To meet its expanded human resource requirements, IBM plans to initiate in-house staff training programs, marking a notable shift from its past strategy of hiring employees away from competitors. Indian software companies, already experiencing a human capital crunch, are now struggling to quickly respond and prevent attrition, fearful of losing skilled employees to their competitors. End summary.

All bets on India

¶2. (U) On June 6 Sam Palmisano, IBM's Chairman, announced investment plans in India of \$6 billion over a five year period (reftel). The company remains reluctant to disclose the details of its investment strategy, but during a recent meeting in Bangalore with visiting New Delhi DCM Pyatt, Inder Thukral, Director Strategy and Business Development at IBM India told post that emphasis will be on research and development of telecommunication and network solutions for IBM operations worldwide. The desire to leverage even further India's large highly-skilled labor force led to this investment move, Shankar Annasamy, Managing Director IBM India told us. The company expects to triple its workforce from the current 47,000 employees at 25 locations in the next five years.

India: IBM's research and development hub

¶3. (U) IBM India, with \$2 billion in current investments, is the proverbial Q800-pound gorilla of IT research and development in the country. The company's India-based teams account for over 30% of IBM's global R&D on network and communications

solutions. With its latest investment, the company has rapidly diversified to meet its R&D needs: The IBM Innovation Center in Bangalore provides an institutional platform for software service suppliers and is a critical testing ground for new products in both the Indian and global market. IBMQs India Software Lab, with facilities in Bangalore and Pune, also develops and supports IBM software products for worldwide operations. In addition, the high-performance On Demand Lab develops specialized software to automate and virtualize the complex information technology infrastructure of clients located in the south Asian region. To further hardware development, the Engineering and Technology Services Center designs advanced chips, cards and systems to meet customer requirements across Asia.

India: A big market for US made mainframes

¶4. (U) IBMQs U.S. manufactured main frames have captured the booming Indian main frame market. The company holds an 80 percent share of IndiaQs estimated \$250 million market for main frames. The market is currently growing at 55 percent, with much of the growth coming from mid-sized Indian businesses. Main frames offered to the Indian market are pre-positioned at the companyQs Bangalore-based Innovation Center to enable potential customers to experience the computing power and capabilities of the machines. IBMQs service oriented architecture that facilitates communication between different business segments located in various locations has

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found favor in India and helped IBM secure a \$100 million deal with Bharti-Airtel, one of IndiaQs largest mobile phone service providers.

Open source products spearhead E-governance

¶5. (U) The use of an open source code Linux is another area of focus for IBM India. The company formed an IBM Linux Competency Center and Linux Solution Center in Bangalore to establish product standards, further Linux R&D as well as to localize products for an increasingly global customer base with local content requirements. State governments in India are big customers as they prefer open source code that enables development of local language fonts.

IBMQs BPOs transform outsourcing

¶6. (U) Leveraging IndiaQs large talent pool of network managers, IBM India services clients around the world via satellite and fiber optic networks from its global operations hub in Bangalore. IBM Daksh, a back office unit which the company acquired in 2004, accounts for nearly 50% of the companyQs staff in India and is expected to contribute over half of the company revenues in the next five years. Similar to other BPO operations such as local giants Infosys and Wipro, Daksh provides services for clients involved in retail, technology, banking, mortgage, energy and life insurance. The range of services includes application processing, account maintenance, data conversion services, logistics management, claims processing, email support and financial services. According to IBM executives, this line of business registered some of the fastest growth rates for IBM

in recent history.

In-house training to meet in-house needs

¶7. (U) IBMQs recent investment spike comes at a time when a fiercely competitive hiring climate is forcing top leadership to rethink its human resource strategy. In the past the company notoriously QpoachedQ experienced individuals from local firms. Looking for new HR capacity building vehicles, company executives are emphasizing university recruitment to attract and train new waves of fresh engineering graduates, or Qfreshers.Q Yet this may be a tall order in a time when A-list tech firms are vying for talent, and freshers with experience under their belt are job-hopping for bigger and better packages. Nonetheless, IBM executives are betting on a combination of higher salaries and their global brand equity to ensure a steady talent pool.

¶8. (U) Strategic partnerships with elite Indian technology institutions are also enabling IBM India to further leverage local human capital expertise. IBMQs Center for Advanced Studies, for example, maintains a close relationship with prestigious institutions such as the Indian Institute of Technology (IIT) Chennai that leads directly into software R&D. The company has a similar program with the Indian Institute of Science in Bangalore and plans to expand its partnerships with other high-caliber institutions across India.

Expansion plans leave Indian software companies
scared

¶9. (U) Comment: IBMQs investment announcement sent a minor wave of anxiety through the Indian software industry, which is already struggling to control costs. InfosysQ Human Resource Director told us his company is trying to preempt potential attrition by offering a 30% salary hike. Mindtree Consulting, a medium sized software development company, plans to tap bright talent as early as the secondary school level. The company hopes to partner with U.S.-based universities to offer recruits a degree in

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engineering at the end of a five year stint. Whatever strategy adopted, representatives of both Infosys and Mindtree told us that IBMQs investment plans will dramatically alter IndiaQs software business landscape and long-term human capital strategy. End comment.

¶10. (U) This message was coordinated with Embassy New Delhi.

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